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House G.O.P. Leaders Agree to Eliminate Dividend Tax

By DAVID FIRESTONE with DAVID E. ROSENBAUM

WASHINGTON, May 20 — House Republican leaders agreed today to go along with the White House and the Senate and eliminate the tax on stock dividends, if only briefly, and Congressional Republican leaders promised to move swiftly to complete action on the bill this week.

The agreement, which represents a concession by the House which had earlier voted to reduce but not eliminate the tax, comes as Majority Leader Tom DeLay acknowledged that the total tax cut would have to stay under the limit imposed by the Senate: \$350 billion over 10 years.

Though Mr. DeLay's acknowledgement seemed to be a bow to the Senate, which sought a tax cut far less than many House Republicans would like, he said he hoped unusual methods could make the actual tax cut much higher, while nominally remaining less than the Senate limit.

"Numbers don't mean anything," Mr. DeLay said. "In the tax code and dealing with a jobs-and-growth package, you can be very creative and still have a major impact."

President Bush had demanded at a meeting at the White House on Monday evening that Congressional Republicans stop bickering over the tax cut, so Congressional tax writers spent the day scrambling for a way to eliminate the tax on stock dividends, even if only temporarily.

One way to do so, preferred by the Senate, would end the tax then restore it after a few years, making the overall tax cut appear much smaller over 10 years. Republicans say they would make certain the dividend tax never returns in future years.

Another method, favored by some House members, would eliminate the dividend tax for a short period, then reinstate it on dividends over a certain dollar amount every year. Another possibility is to exclude dividends from taxation only if the corporation paying them has fully paid the corporate income tax.

These and other possibilities were being discussed by tax writers from both chambers in a late-night session. Republican leaders said they hoped an agreement would be reached by Wednesday or Thursday, which would allow each chamber to vote on the final package by Friday.

That substantially accelerates a timetable that seemed stalled in bickering. Leaders said Mr. Bush had made it clear that he did not want philosophical differences among Republicans to delay the bill's passage, and that he wanted a bill headed to his desk before Congress leaves for a week-long Memorial Day recess this weekend.

"He reminded us how important this is to the economy and his domestic policy," Mr. DeLay said of Mr. Bush. "So what was agreed to last night was, we'll get this bill done by the end of the week."

But the agreement to move quickly does not provide a clear path to resolving the differences between the two houses. House Republicans, who would prefer an amount closer to \$550 billion over 10 years, say that any new spending in the package should not be considered part of the tax cut amount.

In other words, the \$20 billion in aid to state governments, which the Senate has insisted on, would not fall under the \$350 billion limit, according to House calculations. The Senate has also demanded \$27 billion in child tax credits that would be refunded to taxpayers.

But if the full tax plan, including those spending items, costs more than \$350 billion, it would probably lose the votes of several senators whose votes are crucial to passage.

At least one centrist Republican senator whose vote is crucial to securing a majority — Senator George V. Voinovich of Ohio — said today that the total cost of the package, including spending, would have to be less than \$350 billion or he would oppose it. And a spokesman for a Democrat who supported the plan last week, Senator Evan Bayh of Indiana, said he would also be unable to support a plan that went substantially above the limit.

The Senate had also reduced the cost of its tax cut by increasing revenues elsewhere, including raising the taxes paid by Americans who work abroad.

But House members, including the chamber's chief tax writer, Representative Bill Thomas of California, the Ways and Means Committee chairman, said today that they could not accept a package that raised tax revenues in any way.

As a result, House and Senate negotiators faced a difficult task in satisfying widely varying demands within the Republican Party. House leaders, for example, still seek a cut in the capital gains tax. Asked how the bill could be tailored to fit within the \$350 billion limit and still avoid the gimmickry he has criticized, Mr. Thomas, who is the lead House negotiator, shrugged his shoulders.

"Well, that's part of the job, isn't it?" he asked.

The meeting with Mr. Bush also had the effect of forcing House and Senate leaders to put aside their anger at each other at taking completely different paths toward the tax cut, unable to agree even on its size.

The negotiations were also complicated by the announcement today that Congressional staff members may have seriously underestimated the true cost of legislation eliminating the dividend tax that the Senate passed last week.

Democrats said they had discovered that staff members of the Joint Committee on Taxation, which provides the official cost estimates of tax bills, assumed that the Senate wanted to eliminate the tax on dividends paid by a single year's worth of corporate profits. In fact, the Senate bill would have allowed corporations to pay dividends tax-free using many past years of profits.

Senator Tom Daschle of South Dakota, the Democratic leader, said the difference could be in the tens of billions of dollars. "It was a significant error, and as a result, could complicate the conference," he said.

Senator Charles E. Grassley, Republican of Iowa and chairman of the Finance Committee, acknowledged the error tonight and said it underestimated the true cost of the dividend tax cut by \$70

billion. But he criticized the Democrats for not allowing his staff to correct the problem.

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